

Staff Report

**NOVEMBER MODIFICATION
FYs 2022-2025**

December 23, 2021



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TABLE OF CONTENTS

	<i>PAGE</i>
I. Overview	1
II. Review of the November Modification	6
Revenues.....	7
Changes to Total Revenue.....	7
Tax Revenue	8
Miscellaneous Revenue	9
Expenditures	10
Debt and Capital Management	13
III. Glossary of Acronyms	20

LIST OF TABLES

	PAGE
1. NOVEMBER MODIFICATION: THE CITY'S OPERATING PROJECTIONS FOR FISCAL YEARS 2022-2025	3
2. CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR FISCAL YEARS 2022-2025 JUNE FINANCIAL PLAN COMPARED TO NOVEMBER MODIFICATION	4
3. RISKS TO THE FINANCIAL PLAN	5
4. FYs 2023-25 NOVEMBER MODIFICATION CHANGES	11
5. TOTAL-FUNDED DEBT SERVICE SAVINGS	14
6. UNATTAINED TOTAL-FUNDED AUTHORIZED FY 2021 COMMITMENTS ARE REDISTRIBUTED OVER FYs 2022-31	16
7. OCTOBER FOUR-YEAR AND TEN-YEAR AUTHORIZED CAPITAL COMMITMENTS FOR AREAS COMPARED TO APRIL	17

I. Overview

With the release of the November 2021 modification to the June 2021 financial plan, the city continues to develop initiatives to respond to the COVID-19 pandemic and restart more industries. A new marketing campaign by NYC & Company and recent changes on the federal level to allow international flights by vaccinated citizens will help revive tourism. There are new challenges from another COVID-19 variant called Omicron, and the phasing out of federal programs that provided direct payments and loans to individuals and businesses. Government officials are studying the characteristics of the Omicron variant and public health options, while cases of COVID-19 infections and hospitalizations are on the rise in New York and elsewhere.

The city's current economic and tax revenue forecasts are reasonable and conservative, and indicate a slower path to regaining the jobs lost in the pandemic by the third quarter of 2024. At the present time, nonproperty taxes may exceed the city's forecast by \$250 million in FY 2022 based on the pace of residential real estate transactions and exceptional Wall Street profits, which support the two real estate transaction taxes along with the general corporation and sales taxes. Miscellaneous revenue may be higher by \$50 million in FY 2022, and \$75 million in each of FYs 2023-25 from new initiatives, and higher public demand for city services and use of recreational facilities.

In the November modification, the total-funded budget is projected to increase by \$4.1 billion in FY 2022 to \$102.8 billion. The higher spending is a result of COVID-19-related expenses supported by \$2.8 billion of additional federal aid. In FY 2022, the city-funded budget grows by \$895 million to \$68.2 billion, including a \$965 million surplus to prepay FY 2023 debt service expenses. The modification assumes lower net city-funded expenditures over FYs 2023-25 of \$1.3 billion, \$2.1 billion, and \$2.9 billion, respectively. As a result of robust FY 2021 pension returns and the combination of agency and debt service savings, the city was able to cover agency new needs and budget adjustments of about \$600 million and to reduce previously proposed annual labor savings by half from \$1 billion to \$500 million in each of FYs 2023-25.

The November modification projects budget gaps of \$2.9 billion in FY 2023, \$2.7 billion in FY 2024, and \$2.1 billion in FY 2025 that are smaller than the June financial plan estimates by approximately \$1.1 billion in each of FYs 2023-24 and \$1.9 billion in FY 2025. Based on our risk estimates, including unspecified labor savings and higher overtime costs, budget gaps could be higher by \$296 million in FY 2022 and \$1 billion in each of FYs 2023-25, which increases the gaps to \$296 billion in FY 2022, \$3.9 billion in FY 2023, \$3.7 billion in FY 2024 and \$3.1 billion in FY 2025.

The November modification contains a general reserve of \$300 million in FY 2022 and \$1 billion in each of FYs 2023-25. The capital stabilization reserve adds \$250 million to each of FYs 2023-25. In addition, \$1 billion is held in a rainy day fund. While these reserves will help to close gaps in the outyears, the city still must address other budget items that will require recurring expense savings. Notably, the labor reserve includes funding for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period but provides no funding for increases in the first two years of future settlements. Additionally, the city has committed to funding

services and programs with one-time federal stimulus such as the expansion of universal prekindergarten to include three-year old and special education children, as well as mental health support that will require annual funding further than the receipt of federal funds beyond FY 2025.

Potentially adding to the city's increasing budgetary pressures after FY 2025 is the growing capital program. Although the city has been proactive in managing its capital program by redistributing commitments over a ten-year period, the city projects record high levels of capital commitments in the four-year capital plan and ten-year capital program. The debt service burden is projected to be under the affordable threshold of 15 percent over FYs 2022-25 but that may change depending on future tax revenue growth in the years beyond the plan period.

Due to the economic impact of the COVID-19 pandemic on the city's finances, the city had drawn \$1 billion of funds from the Retiree Health Benefits Trust (RHBT) in FY 2020 and scheduled an additional \$1.6 billion withdrawal in FY 2021. The turnaround in fiscal health aided by the inflow of federal aid in the FY 2021 April modification allowed the city to reverse the drawdown in FY 2021. Unfortunately, the city has yet to replace \$1 billion of funds taken from the RHBT in FY 2020, which leaves \$4.2 billion of trust funds. Net of the RHBT, the Other Postemployment Benefits (OPEB) liability amounts to \$118 billion, as of June 30, 2021. It has been our view, since the OPEB liability was recognized and subsequently the RHBT was created, the city should maintain the budget practice of making annual contributions to the trust to reduce the growing OPEB liability and refrain from using the trust as a rainy day fund. Moreover, the city needs to fully replenish funds withdrawn from the trust.

**NOVEMBER MODIFICATION:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2022-2025**

TABLE 1 (\$ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025
<u>Revenues</u>				
Taxes:				
General Property	\$29,284	\$30,042	\$30,471	\$30,881
Other Taxes	32,222	34,674	36,372	37,833
Tax Audit Revenue	921	721	721	721
Miscellaneous Revenues	7,140	6,531	6,538	6,567
Unrestricted Intergovernmental Aid	750	--	--	--
Less: Intracity Revenues	(2,084)	(1,449)	(1,450)	(1,444)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$68,218	\$70,504	\$72,637	\$74,543
Other Categorical Grants	1,120	993	991	990
Interfund Revenues	729	732	730	730
Federal Categorical Grants	16,514	9,284	8,613	7,915
State Categorical Grants	<u>16,266</u>	<u>16,412</u>	<u>16,637</u>	<u>16,887</u>
Total Revenues	<u>\$102,847</u>	<u>\$97,925</u>	<u>\$99,608</u>	<u>\$101,065</u>
<u>Expenditures</u>				
Personal Service	\$53,629	\$52,937	\$53,559	\$53,929
Other Than Personal Service	48,853	41,039	40,645	40,590
General Obligation, Lease & TFA Debt Service	6,791	7,995	8,335	8,880
Budget Stabilization & Prepayments	(5,142)	(965)	--	--
Capital Stabilization Reserve	--	250	250	250
General Reserve	300	1,000	1,000	1,000
Deposit to the Rainy Day Fund	<u>500</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	\$104,931	\$102,256	\$103,789	\$104,649
Less: Intracity Expenditures	<u>(2,084)</u>	<u>(1,449)</u>	<u>(1,450)</u>	<u>(1,444)</u>
Total Expenditures	<u>\$102,847</u>	<u>\$100,807</u>	<u>\$102,339</u>	<u>\$103,205</u>
<u>Gap To Be Closed</u>	<u>\$0</u>	<u>(\$2,882)</u>	<u>(\$2,731)</u>	<u>(\$2,140)</u>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2022-2025
JUNE FINANCIAL PLAN COMPARED TO NOVEMBER MODIFICATION**

TABLE 2 (\$ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025
<u>Revenues</u>				
Taxes:				
General Property	\$0	\$0	\$0	\$0
Other Taxes	71	0	0	0
Tax Audit Revenue	0	0	0	0
Miscellaneous Revenues	267	59	77	93
Unrestricted Intergovernmental Aid	750	0	0	0
Less: Intracity Revenues	(193)	(9)	(11)	(10)
Disallowances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total City Funds	\$895	\$50	\$66	\$83
Other Categorical Grants	95	0	0	0
Interfund Revenues	4	7	5	5
Federal Categorical Grants	2,817	40	10	7
State Categorical Grants	<u>313</u>	<u>104</u>	<u>11</u>	<u>10</u>
Total Revenues	<u>\$4,124</u>	<u>\$201</u>	<u>\$ 92</u>	<u>\$105</u>
<u>Expenditures</u>				
Personal Service	(\$208)	(\$182)	(\$980)	(\$1,786)
Other Than Personal Service	3,798	584	431	445
General Obligation, Lease & TFA Debt Service	(238)	(396)	(454)	(473)
Budget Stabilization & Prepayments	965	(965)	0	0
Capital Stabilization Reserve	0	0	0	0
General Reserve	0	0	0	0
Deposit to the Rainy Day Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$4,317	(\$959)	(\$1,003)	(\$1,814)
Less: Intracity Expenditures	<u>(193)</u>	<u>(9)</u>	<u>(11)</u>	<u>(10)</u>
Total Expenditures	<u>\$4,124</u>	<u>(\$968)</u>	<u>(\$1,014)</u>	<u>(\$1,824)</u>
Change to the Gap Decrease/(Increase)	<u>\$0</u>	<u>\$1,169</u>	<u>\$1,106</u>	<u>\$1,929</u>

RISKS TO THE FINANCIAL PLAN

TABLE 3

(\$ in millions, positive numbers are offsets to risks)

	FY 2022	FY 2023	FY 2024	FY 2025
Stated Financial Plan Gap	\$0	(\$2,882)	(\$2,731)	(\$2,140)
<u>Estimation</u>				
Nonproperty Tax Revenue	250	0	0	0
Miscellaneous Revenue	50	75	75	75
Uniformed Services Overtime	<u>(596)</u>	<u>(578)</u>	<u>(579)</u>	<u>(579)</u>
Subtotal	(296)	(503)	(504)	(504)
<u>Implementation</u>				
Labor Savings	0	(500)	(500)	(500)
Risk Total	(\$296)	(\$1,003)	(\$1,004)	(\$1,004)
Total FCB Estimated Surplus/(Gap)	(\$296)	(\$3,885)	(\$3,735)	(\$3,144)

II. Review of the November Modification

With the release of the November 2021 modification to the June 2021 financial plan, the city continues to develop initiatives to respond to the COVID-19 pandemic and restart more industries. A new marketing campaign by NYC & Company and recent changes on the federal level to allow international flights by vaccinated citizens will help revive tourism. There are new challenges from another COVID-19 variant called Omicron, and the phasing out of federal programs that provided direct payments and loans to individuals and businesses. Government officials are studying the characteristics of the Omicron variant and public health options while cases of COVID infections and hospitalizations are on the rise in New York and elsewhere.

In the November modification, the total-funded budget is projected to increase by \$4.1 billion in FY 2022 to \$102.8 billion. The higher spending is a result of COVID-19-related expenses supported by \$2.8 billion of additional federal aid. In FY 2022, the city-funded budget grows by \$895 million to \$68.2 billion, including a \$965 million surplus to prepay FY 2023 debt service expenses. The modification assumes lower net city-funded expenditures over FYs 2023-25 of \$1.3 billion, \$2.1 billion, and \$2.9 billion, respectively. As a result of robust FY 2021 pension returns and the combination of agency and debt service savings, the city was able to cover agency new needs and budget adjustments of about \$600 million and to reduce previously proposed annual labor savings by half from \$1 billion to \$500 million in each of FYs 2023-25.

The November modification projects budget gaps of \$2.9 billion in FY 2023, \$2.7 billion in FY 2024, and \$2.1 billion in FY 2025 that are smaller than the June financial plan estimates by approximately \$1.1 billion in each of FYs 2022-23 and \$1.9 billion in FY 2025. Based on our risk estimates, including the unspecified labor savings and higher overtime costs, budget gaps could be higher by \$296 million in FY 2022 and \$1 billion in each of FYs 2023-25, which increases the gaps to \$296 billion in FY 2022, \$3.9 billion in FY 2023, \$3.7 billion in FY 2024 and \$3.1 billion in FY 2025.

The November modification contains a general reserve of \$300 million in FY 2022 and \$1 billion in each of FYs 2023-25. The capital stabilization reserve adds \$250 million to each of FYs 2023-25. In addition, \$1 billion is held in a rainy day fund. While these reserves will help to close gaps in the outyears, the city still must address other budget items that will require recurring expense savings. Notably, the labor reserve includes funding for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period but provides no funding for increases in the first two years of future settlements. Additionally, the city has committed to funding services and programs with one-time federal stimulus such as the expansion of universal prekindergarten to include three-year old and special education children, as well as mental health support that will require annual funding further than the receipt of federal funds beyond FY 2025.

Potentially adding to the city's increasing budgetary pressures after FY 2025 is the growing capital program. Although the city has been proactive in managing its capital program by redistributing commitments over a ten-year period, the city projects record high levels of total-funded capital commitments in the four-year capital plan and ten-year

capital program at \$80 billion and \$147 billion, respectively. The debt service burden is projected to be under the affordable threshold of 15 percent over FYs 2022-25 but that may change depending on future tax revenue growth in the years beyond the plan period.

REVENUES

The city's current economic and tax revenue forecasts are reasonable and conservative, and indicate a slower path to regaining the jobs lost in the pandemic by the third quarter of 2024. At the present time, nonproperty taxes may exceed the city's forecast by \$250 million in FY 2022 based on the pace of residential real estate transactions and exceptional Wall Street profits, which support the two real estate transaction taxes along with the general corporation and sales taxes.¹ As shown in Table 3 on page 5, miscellaneous revenue may be higher by \$50 million in FY 2022, and \$75 million in each of FYs 2023-25 from new initiatives, and higher public demand for city services and use of recreational facilities.

CHANGES TO TOTAL REVENUE

In the budget cycle, a November modification typically represents smaller-scale adjustments to the financial plan that was adopted in June to acknowledge collections through September, and changes in the local and national economies. In the November 2021 modification, the tax and economic forecasts were prepared prior to the discovery of the Omicron variant in New York. The first quarter modification shows increases in total revenue of \$4.124 billion to \$102.847 billion in FY 2022, \$201 million to \$97.925 billion in FY 2023, \$92 million to \$99.608 billion in FY 2024, and \$105 million to \$101.065 billion in FY 2025. Given current conditions, nonproperty tax collections may exceed the city's forecast by \$250 million in FY 2022 largely from the real estate transaction taxes along with the general corporation and sales taxes.

Changes in FY 22 Revenues Adopted Budget to November Mod	
(\$ in millions)	
Property Tax	0
Nonproperty Taxes	71
Subtotal Taxes	\$71
Audits	0
Total Taxes	\$71
Unrestricted Aid	750
Miscellaneous	74
City Funds	\$895
Categorical Aid	3,225
Federal	2,817
State	313
Other	95
Interfund	4
Total Revenue	\$4,124
Numbers may not add due to rounding.	

The figure to the right illustrates the different types of revenue that comprise total funds and changes since June. It is primarily receipts from the federal government in the form of categorical and unrestricted aid that are the basis of the \$4.124 billion improvement in the FY 2022 forecast. Categorical aid, led by transfers from the federal government, increased by \$3.225 billion on a plan-to-plan basis. Past FY 2022, federal categorical aid falls on a year-to-year basis by \$7.23 billion to \$9.284 billion in FY 2023, and settles at \$7.915 billion in FY 2025. During FYs 2022-25 state categorical grants remain at about the \$16 billion level. Unrestricted aid rises by \$750 million in FY 2022, which represents delayed reimbursement from FEMA due to backlogs for projects the city started in FY 2021 using city funds. Contributing to the misalignment in timing for these FEMA-eligible projects is a new interpretation of the Governmental

¹ The two real estate transaction taxes are the real property transfer and mortgage recording taxes.

Accounting Standards Board (GASB) Statement No. 33.² Among the other revenue sources listed in the figure on page 7, there are comparatively smaller increases to the projections for tax and miscellaneous revenues at \$71 million and \$74 million, respectively, which are discussed below.³

Tax Revenue

In the November modification, there are no changes to the tax revenue forecasts in FYs 2023-25, and a \$71 million increase to the nonproperty taxes in FY 2022 that is detailed in the figure to the right. In terms of the property tax, there are adjustments to the quarterly payments during the financial plan period, but the changes net to zero in each year. After growing 5.6 percent year-to-year in FY 2021, property tax collections are expected to fall 6.5 percent to \$29.284 billion in FY 2022 before rising 2.6 percent in FY 2023, 1.4 percent in FY 2024, and 1.3 percent in FY 2025. In January 2022, the FY 2023 tentative assessment roll will be released by the Department of Finance that will offer new estimates of citywide market and assessed values. The new data will be reflected in the second quarter modification.

Changes in FY 22 Tax Revenue Adopted Budget to November Mod	
(\$ in millions)	
Property	0
General corporation	42
Unincorporated business	(46)
Personal income	(73)
Mortgage recording	45
Real property transfer	52
Commercial rent	4
Sales	27
Hotel occupancy	7
Minor	9
Utility	3
Cigarette	1
STAR aid	0
Total Change	\$71
Numbers may not add due to rounding.	

Nonproperty Taxes

The nonproperty taxes rise 5.5 percent from FYs 2022-25 on an average annual basis with much of the impetus in the near term of the financial plan period. Since the release of the economic forecast in April with the executive budget, the city expects a slower recovery in job creation and has lowered its estimates of job gains in 2021 from 450,000 to 232,000 jobs and raised the 2022 estimate from 157,000 to 176,000 jobs (seasonally adjusted, quarter four over quarter four). In this environment, total wage earnings during 2021-25 are supported by historically moderate growth in finance sector wage earnings of 4.4 percent during 2021-25 on an average annual basis. There are also expectations of a larger Wall Street bonus pool in 2020 and 2021.

Based on Wall Street profits of \$31 billion for the first half of 2021, the city expects \$49.3 billion in Wall Street profits in 2021 after New York Stock Exchange (NYSE) member firms earned \$50.9 billion in 2020. Banks are continuing to release reserves that were held on the assumption of higher rates of consumer and business defaults that did not occur

² GASB Statement No. 33 refers to Accounting and Financial Reporting for Nonexchange Transactions.

³ On a city-funds basis, revenue increases \$895 million to \$68.218 billion in FY 2022, \$50 million to \$70.504 billion in FY 2023, \$66 million to \$72.637 billion in FY 2024, and \$83 million to \$74.543 billion in FY 2025.

during the pandemic. Most business lines are doing well, including advising on mergers and acquisitions, investment banking, IPOs, and underwriting. In 2022 and 2023 the city anticipates profits at NYSE member firms will moderate to \$20 billion and \$19.2 billion, respectively.

The changes to the nonproperty tax projections in the figure on page 8 represent collections for the first quarter of FY 2022, and reflect the positive effects from a large number of residential real estate sales and rentals, the relative stability in asking rents possibly from commercial property owners deciding to wait-out the pandemic-induced downturn, and very strong securities industry profits. Sales tax collections are benefitting from the reopening of Broadway and other cultural institutions with city and state rules on vaccination and wearing masks. The sales and hotel occupancy taxes will also benefit from the change in federal travel regulations in November that allows vaccinated citizens from other countries to come to the United States. NYC & Company estimates domestic and international tourism will reach 34.6 million in 2021, and climb in each year thereafter. By 2024 total visitation may reach 70.4 million, which would exceed the 2019 level of 66.6 million visitors.

As the economic recovery gradually spreads beyond Wall Street and residential real estate during the plan period, there are areas of concern. There is some transaction activity in the commercial real estate market, but not to the degree seen in residential sales and rental properties. The focus, particularly for tech and finance companies, is on renting space and purchasing the newest commercial buildings that have more amenities to draw back employees, rather than older buildings. In terms of the personal income and the unincorporated business taxes, there are uncertainties over the amount of taxpayer liability in 2021 as compared with 2020, and how their spending and tax payments may change with the removal of direct payments and loans from the federal government.

Miscellaneous Revenue

Compared to the June 2021 financial plan, the first quarter modification adjusts the miscellaneous revenue forecast upward by \$74 million in FY 2022, \$50 million in FY 2023, \$66 million in FY 2024, and \$83 million in FY 2025 to about \$5.1 million in each year. Besides changes to the estimates of water and sewer charges in each of FYs 2022-25, there are increases to the interest income forecast in FY 2024 and FY 2025 that brings interest income from \$10 million in FY 2023 to \$28.6 million in FY 2024 and \$68.8 million in FY 2025, likely reflecting higher short-term interest rates from a less accommodative Federal Reserve policy. Revenue in the other miscellaneous category in FY 2022 is boosted by a land sale of \$21.1 million, and other one-time actions from an agency audit and refund of prior-year expenses. As shown in Table 3 on page 5, the latest miscellaneous revenue forecast may be exceeded by \$50 million in FY 2022, and \$75 million in each of FYs 2023-25 from new initiatives, and higher public demand for city services and use of recreational facilities.

EXPENDITURES

The November modification projects an increase of \$895 million in city-funded revenue and a net decrease of \$70 million in city-funded expenditures in FY 2022. Since the June plan, the higher revenue, which includes \$750 million of unrestricted aid, and net decrease in expenditures create a \$965 million surplus, as shown in the figure to the right.⁴

Changes in FY 2022

As shown in the figure, agencies are allocated an additional \$534 million to fund new needs. The allocation includes \$57 million to address health and safety issues at the Rikers Island Correctional Facility; \$50 million of additional funding for the Taxi Medallion Relief Fund established in FY 2021 to provide debt relief to medallion owners bringing total city support to \$115 million; \$29 million to support housing, healthcare and employment counseling for those reentering the communities in the five boroughs; \$15 million extends COVID-19 emergency food distribution; \$14 million helps to reduce recidivism by targeting employment initiatives; \$10 million deepens funding for the Key to NYC vaccine canvassing program; \$7 million increases Test and Trace outreach; \$6 million to fund the \$500 per person vaccine initiative; \$5 million for mental health services at domestic violence shelters; and \$4.4 million for expansion of street homeless outreach by deploying mobile treatment vans. Remaining funds support citywide operations, Hurricane Ida relief, security requirements, and various social services.

FY 2022 November Mod Changes City Funds (\$ in millions)	
Revenue	
Unrestricted Aid	\$750
Nontax	74
Tax	71
Total Increase	\$895
Expenditure Increase/(Decrease)	
Agency New Needs	\$534
Savings Program	(262)
Debt Service	(238)
Pensions	(104)
Total Net Decrease	(\$70)
Surplus Funds	\$965

Agency new needs of \$534 million are more than entirely offset with combined savings of \$604 million from agency, debt service, and pensions netting \$70 million in lower city-funded expenditures. Much of the agency savings of \$262 million are reduced Personal Service (PS) expenditures, which encompass salaries and wages, and fringe benefits paid to city workers. The largest portion of PS savings, \$111 million, is generated in the Department of Education. Debt service savings continue to be a consistent source of lower spending in the city's budget and \$238 million accounts for almost half of the total savings program in FY 2022.⁵ Lower pension costs add \$104 million.

Changes in FYs 2023-25

As shown in Table 4 on page 11, budget gaps in FYs 2023-25 projected at \$4.051 billion, \$3.837 billion, and \$4.069 billion, respectively, in the June 2021 financial plan are

⁴ Nontax revenue includes \$9 million of higher agency revenue, a component of the savings program.

⁵ For a further discussion of debt service, see "Debt and Capital Management," starting on page 13.

reduced by \$1.169 billion, \$1.106 billion, and \$1.929 billion to \$2.882 billion, \$2.731 billion, and \$2.14 billion, respectively.

TABLE 4

FYs 2023-25 NOVEMBER MODIFICATION CHANGES
City Funds (\$ in millions)

	FY 2023	FY 2024	FY 2025
Gap to be Closed – June 2021 Plan	(\$4,051)	(\$3,837)	(\$4,069)
Revenue			
Nontax	\$50	\$66	\$83
Expenditure Increase/(Decrease)			
Pensions	(\$804)	(\$1,612)	(\$2,420)
Debt Service	(396)	(454)	(472)
Savings Program	(80)	(58)	(21)
Agency New Needs and Budget Adjustments	626	584	567
Labor Adjustment	<u>500</u>	<u>500</u>	<u>500</u>
Total Net Decrease	(\$154)	(\$1,040)	(\$1,846)
FY 2022 Prepayment	(965)		
Gap to be Closed – November 2021 Plan	(\$2,882)	(\$2,731)	(\$2,140)

The city recognizes pension savings starting in FY 2023, as shown in Table 4. For FY 2021, the five actuarial pension funds realized an aggregate return of 25.8 percent increasing the systems' assets by \$52.507 billion from \$213.577 billion to \$266.084 billion. The return is phased in beginning FY 2023 at \$804 million, growing to \$1.612 billion in FY 2024, and to \$2.42 billion by FY 2025. The investment gain also increases benefit funding to 95.7 percent from 77.9 percent, which means the system now has about \$0.96 of assets for each \$1 of liabilities.

Savings generated in the November modification are mostly due to lower debt service costs. As shown in Table 4, the city recognizes city-funded debt service savings of \$396 million in FY 2023, \$454 million in FY 2024, and \$472 million in FY 2025.⁶ There are only modest agency savings ranging from \$21 million to \$80 million over FYs 2023-25, the majority of which comes from the Department of Education due to reestimated federal food expenses and the Fire Department for suspension of the Fly Car program.⁷

The city allocates about \$1.1 billion in each of FYs 2023-25 for agency new needs and budget adjustments and to reduce previously proposed annual labor savings. As shown in Table 4, agency new needs and budget adjustments total \$626 million, \$584 million, and \$567 million over FYs 2023-25, respectively. The larger amounts of the higher agency spending are to fund judgments and claims, and to partially restore prior headcount savings. The funds added for judgment and claims, \$150 million in each of FYs 2023-25, are related to the ongoing *Gulino v. The Board of Education* litigation, in which the timing and amounts for individual judgments and damages are still being

⁶ For a further discussion of debt service, see "Debt and Capital Management," starting on page 13.

⁷ The Fly Car program deployed faster SUVs equipped with advanced life support tools to the scene of medical emergencies before ambulances that transport patients to the hospital could get there. The suspension reduces civilian headcount by 219 creating savings of \$14 million in each of FYs 2023-25.

worked through. The allocated funds in each of FYs 2023-25 are a placeholder. The final sum is likely to be significantly higher.⁸

To reduce PS expenditures, the city had focused on reducing headcount over the long term using initiatives such as vacancy reduction and a partial hiring freeze. Vacancy reductions closed agency positions to new hires when the positions were vacated by employee retirement or other leave. The effort reduced headcount by about 7,000 employees since January 2020. Following, the city unveiled a new initiative, Hiring and Attrition Management, which was expected to reduce headcount further by almost 5,000 employees over FYs 2022-25 and yield \$1.421 billion of savings.⁹ Slowly, however, the city has been restoring the planned savings to increase rather than decrease headcount. In the adopted budget, the city had restored \$292 million in FY 2022, \$78 million in FY 2023, \$80 million in FY 2024, and \$81 million in FY 2025. In the November modification, additional restorations are \$84 million in FY 2023, \$86 million in FY 2024, and \$87 million in FY 2025.

In addition to agency new needs and budget adjustments, a reduction in labor savings is proposed in the November modification. In the FY 2020 June modification, the city proposed unspecified annual labor savings of \$1 billion starting in FY 2021 to counter the negative impact of the pandemic on city finances. By deferring some employee payments due in FY 2021 to FY 2022, the city was able to achieve at least partial savings in FY 2021. With the receipt of federal aid in the FY 2021 April modification, the city was able to supplant the remaining proposed savings in FY 2021 and the full \$1 billion in FY 2022, but assumed the labor savings would be attained in each of FYs 2023-25. With an improvement in its fiscal condition, the city reduces the previously proposed labor savings to \$500 million in each of FYs 2023-25 adding back \$500 million in each of these fiscal years. We believe these unspecified savings of \$500 million in each of FYs 2023-25 remain at risk, as shown in Table 3 on page 5.

Federal Aid

The November modification assumes the receipt of \$2.817 billion in additional federal aid in FY 2022. More than half of the aid, \$1.54 billion, is allocated by the Federal Emergency Management Agency (FEMA). Much of the FEMA support, \$1.491 billion, responds to expenses related to COVID-19 with remaining funds of \$48 million used for recovery from Superstorm Sandy and Hurricane Ida. In addition to FEMA aid, the city draws upon stimulus funds of about \$724 million allotted by the American Rescue Plan Act and Coronavirus Aid, Relief, and Economic Security Act to similarly cover pandemic associated spending. Federal aid outside of COVID-19 support increases by \$553 million

⁸ Gulino v. The Board of Education and the New York State Education Department is a class action lawsuit filed on behalf of public school teachers of color challenging the use of discriminatory tests and licensing rules to deprive them of equal salaries, pensions, benefits and seniority.

⁹ To achieve the savings, a strict policy of replacing workers called the “three-out / one-in” was implemented. Under that rule, for every three employees leaving the city’s workforce, only one new employee could fill the vacancy. The new policy exempted uniformed, health care and revenue-generating positions.

for community development, port security, Temporary Assistance to Needy Families, and foster care. In the outyears, FYs 2023-25, federal assistance increases modestly net of budget adjustments by \$40.3 million, \$9.8 million, and \$6.4 million, respectively.

Expenditure Budget Risks

In our analysis of Uniformed Services overtime, spending is increasing at a much faster rate than what the city is projecting. In Uniformed Services (Police, Fire, Correction, and Sanitation) the overtime budgets are severely underfunded and will need to add close to \$600 million in each of FYs 2022-25, as shown in Table 3 on page 5. Collectively, we believe that the four agencies will spend \$1.376 billion by the end of FY 2022 based on current spending of \$459 million through October 2021.

DEBT AND CAPITAL MANAGEMENT

The November modification to the financial plan recognizes savings in city-funded debt service costs since June for the city and the New York City Transitional Finance Authority (NYCTFA) amounting to \$238 million in FY 2022, \$396 million in FY 2023, \$454 million in FY 2024, and \$472 million in FY 2025. The reductions in debt service costs net of prepayments represent a sizeable portion of the city's current agency savings program, ranging from 47 percent to 96 percent over FYs 2022-25. The changes in debt service costs were mainly generated from savings related to reductions in debt issuances to reflect a redistribution of capital commitments, refinancing transactions, as well as lower variable debt interest costs from a decreased rate assumption.

Over FYs 2022-25, the major portion of savings in debt service costs relates to the reduction in the city's capital plan funding schedule stemming from a redistribution of the program. Largely as a result of the limitations imposed on undertaking capital projects due to the pandemic, the city entered into only 62 percent of the commitments authorized for FY 2021. Consequently, those commitments not undertaken were rolled into future fiscal years. Due to the magnitude of unattained commitments, the city chose to redistribute capital projects through FY 2031 to even out the level of commitments scheduled in the plan years in an effort to make the program more feasible.

Debt Service Savings

In FYs 2022-25, the city and NYCTFA total-funded debt service savings in the November modification reflect financing activity undertaken thus far in the fiscal year, as well as changes to funding needs for the capital program and reduced variable interest rate projections, which are detailed in Table 5 on page 14. The reduction in debt service costs, including the actual terms of bond sales undertaken as well as projected debt service on new bond issuances, represents the largest portion of savings at \$150 million in FY 2022, \$225 million in FY 2023, \$284 million in FY 2024 and \$302 million in FY 2025. These sizeable debt service savings were primarily the consequence of the redistribution of capital commitments over the ten-year period rather than the four-year plan period. As a result, the city reduced its projected financing schedule for tax-supported issuances for general obligation (g.o.) and NYCTFA future tax secured (FTS) bonds by a total of \$3.6 billion over FYs 2022-25, with most of the reduction planned in FY 2022 at \$2.6 billion.

TOTAL-FUNDED DEBT SERVICE SAVINGS

TABLE 5

(\$ in millions)

	FY2022	FY2023	FY2024	FY2025
June 2021 Debt Service	\$7,029	\$8,391	\$8,789	\$9,353
Actual & Projected Debt Service	(\$150)	(\$225)	(\$284)	(\$302)
NYCTFA Refundings & G.O. Reoffering Transactions	(25)	(88)	(88)	(88)
Building Aid Excess Retention Offset	(14)	(75)	(74)	(74)
Variable Rate Debt Interest	(49)	(8)	(8)	(8)
Debt Service Savings	(\$238)	(\$396)	(\$454)	(\$473)
November 2021 Debt Service	\$6,791	\$7,995	\$8,335	\$8,880
Numbers may not add due to rounding.				

In Table 5, the majority of the savings included in NYCTFA Refundings & G.O. Reoffering Transactions and Building Aid Excess Retention Offset were achieved from two refunding bond sales undertaken by the NYCTFA. In FY 2022, the NYCTFA held two refunding bond sales that included \$1.1 billion of FTS bonds and \$813 million of Building Aid Revenue Bonds (BARBs). The refunding of FTS bonds generated savings of \$28 million in FY 2022 and \$92 million in each of FYs 2023-25, which are partially offset by costs associated with a g.o. reoffering transaction. The savings from the refunding of BARBs, reflected in the building aid excess retention offset, amounted to \$14 million in FY 2022 and about \$74 million in each of FYs 2023-25.¹⁰ As shown in Table 5, the FY 2022 year-to-date variable rate debt interest savings at \$49 million have been obtained from more favorable interest rates than assumed in the June financial plan. In the November modification, the variable interest rate projection was reduced by 56 basis points.

Capital Funding and Debt Service Costs

In the capital plan for FYs 2022-25, the city is projecting over \$71 billion in total-funded targeted commitments with \$67.1 billion funded by city sources and \$4.1 billion funded by noncity sources, as shown in the figure to the right.¹¹ Over the four-year period, commitments funded with tax-supported bonds issued by the city and the NYCTFA make up 80 percent of the total program, at \$56.8 billion, while the

FYs 2022-25 Capital Plan Change from April 2021 by Funding Source (\$ in billions)		
	<u>Targeted Commitments</u>	<u>Change</u>
Tax-Supported	\$56.847	(\$1.559)
NYW-Supported	<u>10.284</u>	<u>0.908</u>
City-Funded	\$67.131	(\$0.651)
Noncity-Supported	<u>4.053</u>	<u>0.605</u>
Total	\$71.184	(\$0.046)

Department of Environmental Protection commitments funded with water and sewer rate-supported bonds issued by the NYC Municipal Water Finance Authority (NYW)

¹⁰ Adjustments to building aid excess retention offset are made to reflect NYCTFA sales of Building Aid Revenue Bonds for refunding and new money purposes, as well as the annual amount of building aid provided by the state for eligible city school construction projects.

¹¹ The financial plan contains targeted levels of capital commitments, which the city realistically expects to enter into taking into consideration logistical constraints. The projected financing schedule and debt service costs are based on these amounts.

comprise 14 percent, or \$10.3 billion.¹² Compared to the prior capital plan, city-funded commitments represent a net decrease of \$651 million, with a reduction in tax-supported funding at \$1.6 billion combined with increase in water and sewer rate-supported funding of \$908 million. The reduction in the capital funding schedule for tax-supported bonds is reflected in the debt service savings discussed earlier in this section. While there are substantial savings, debt service costs are projected to increase markedly over the financial plan period.

Debt service is driven by the sale of bonds to support capital spending and is paid from tax revenues. Based on the capital funding schedule, city and NYCTFA total-funded debt service costs, net of prepayments, in the November modification are projected to grow steadily from \$6.8 billion in FY 2022 to \$8.9 billion by FY 2025, at an average annual rate of 9.4 percent over the financial plan years. Depicted in the figure to the right, when

City and NYCTFA Debt Service as Percentage of Tax Revenues (\$ in millions)			
FY	Debt Service	Tax Revenues	Debt Service as Percent of Tax Revenues
2022	\$6,791	\$62,427	10.9%
2023	7,995	65,437	12.2%
2024	8,335	67,564	12.3%
2025	8,880	69,435	12.8%
Avg Annual Growth	9.4%	3.6%	

taken as a percentage of tax revenues, debt service is forecasted to grow almost two percentage points as a share of tax revenues, from 10.9 percent in FY 2022 to 12.8 percent in FY 2025. The increased burden is due to projected tax revenues in the plan rising less aggressively, at an average annual rate of 3.6 percent. At the current projected levels, total-funded debt service costs are below the burden on tax revenues determined to be affordable at 15 percent, which is the threshold utilized by the city.

Authorized Capital Commitments

In October 2021, the city released its four-year capital plan for FYs 2022-25, as well as a revised ten-year capital program redistributing commitments over FYs 2022-31.¹³ As presented in Table 6 on page 16, to accommodate \$6.2 billion of unattained total-funded authorized commitments from FY 2021, the city chose to spread the roll through FY 2031, while decreasing commitments in FYs 2022 and 2025 compared to the capital plan released in the April 2021 executive budget.¹⁴ Since rolling the unattained commitments into the

¹² The city will address the funding from the federal Infrastructure Investment and Jobs Act in the capital program to be released with preliminary budget.

¹³ The city regularly revises the capital program to reflect changes in the scope and timing of planned projects, as well as the economic forecast. Starting in January 2020, the city has redistributed commitments over a ten-year period, representing a different approach to the capital planning process. Prior to 2020, the city typically revised its ten-year capital program every two years, while updating the four-year capital plan with every financial plan and modification release.

¹⁴ The sizeable level of unattained commitments in FY 2021 is largely the result of limitations imposed by the city during the pandemic. After the New York State on PAUSE restrictions were lifted in June 2020, the city continued to limit capital projects in light of fiscal uncertainty and budget constraints to ensure there were enough resources to deal with the immediate health emergency. In January 2021, these remaining capital restrictions were lifted, and by April the city's capital process operated as before.

plan years would have made the annual amount of capital projects impracticable to undertake, the city chose to redistribute the greater part of the increase to commitments into the later six years of the ten-year period. As shown in Table 6, taking into account unattained commitments for FY 2021, the capital plan actually reflects a net reduction in commitments of \$2.6 billion over FYs 2021-25.

Compared to the ten-year capital strategy released in April 2021, the city has scheduled an additional \$13.3 billion of commitments to its capital program, bringing the total to \$147.1 billion for FYs 2022-31. As displayed in Table 6, most of the growth in commitments is planned for FYs 2026-31 with an increase of \$9.7 billion, the greater part of which, \$7.6 billion, is scheduled in FYs 2026-27. However, taking into consideration the level of unattained commitments from FY 2021 at \$6.2 billion, the overall net increase to the city's capital program amounts to almost \$7.1 billion over FYs 2021-31.

**UNATTAINED TOTAL-FUNDED AUTHORIZED FY 2021 COMMITMENTS
ARE REDISTRIBUTED OVER FYs 2022-31**

TABLE 6

(\$ in billions)

Fiscal Year	April 2021 Capital Program	Change	October 2021 Capital Program
2021	\$16.293	(\$6.246)	\$10.047*
2022	21.943	(0.041)	21.903
2023	17.175	4.881	22.056
2024	18.034	1.177	19.211
2025	19.557	(2.373)	17.184
FYs 22-25	\$76.709	\$3.645	\$80.354
FYs 21-25	\$93.002	(\$2.601)	\$90.401
2026	14.352	5.668	20.020
2027	10.430	1.955	12.385
2028	8.262	0.839	9.101
2029	7.901	0.557	8.458
2030	7.699	0.352	8.051
2031	8.393	0.309	8.702
FYs 26-31	\$57.037	\$9.680	\$66.717
FYs 22-31	\$133.746	\$13.325	\$147.071
FYs 21-31	\$150.039	\$7.079	\$157.118
*Actual Numbers may not add due to rounding.			

Even with the redistribution, the majority of authorized commitments are scheduled in FYs 2022-25 at \$80.4 billion, or 55 percent of the ten-year capital program. In each of FYs 2022 and 2023, the city has authorized approximately \$22 billion in total-funded capital commitments. As part of its capital management and recovery plan, these substantial amounts will allow city agencies the flexibility to choose from a large pool of capital commitments to prioritize which projects will be the most viable and have the greatest benefit. The city's rationale is to make necessary capital improvements that were deferred during the pandemic-related restrictions as well as to support the city's economy.

Capital Commitments Priorities

In addition to reviewing the city's capital planning, funding and debt service costs, we also reviewed the authorized commitment plan for individual areas.¹⁵ As illustrated in Table 7, compared to the capital program released in April 2021, total-funded authorized commitments are projected to increase by \$3.6 billion to \$80.4 billion over FYs 2022-25 and by \$13.3 billion to \$147.1 billion over FYs 2022-31. Only 27 percent of the increase to the ten-year capital program is planned in the first four years, while the majority, representing 73 percent, is scheduled for the latter six years.

OCTOBER FOUR-YEAR AND TEN-YEAR AUTHORIZED CAPITAL COMMITMENTS FOR AREAS COMPARED TO APRIL

TABLE 7

(\$ in millions)

Total Funds	Four-Year Capital Plan		Ten-Year Capital Program	
	Change From April	FYs 2022-25 Capital Plan	Change From April	FYs 2022-31 Capital Program
Department of Education	\$874	\$15,964	\$890	\$23,090
Housing Preservation and Development	(4)	6,083	561	12,792
Energy Efficiency and Citywide Equipment	(369)	4,745	530	9,898
Sewers	875	3,203	1,971	7,369
Department of Parks and Recreation	(988)	3,896	1,553	7,166
Department of Small Business Services	609	3,366	871	5,870
Housing Authority	1,454	2,873	1,687	4,581
Health + Hospitals	683	2,974	885	4,186
Transit Authority	<u>780</u>	<u>1,490</u>	<u>780</u>	<u>2,480</u>
Subtotal	\$3,914	\$44,595	\$9,727	\$77,431
All Other*	(268)	35,759	3,598	69,640
Total	\$3,645	\$80,354	\$13,325	\$147,071
*All Other includes Bridges, Highways, Traffic, Ferries, Transportation Equipment, Water Pollution Control, Water Mains, Water Supply, DEP Equipment, City University, Sanitation, Human Resources Administration, Children's Services, Homeless Services, Health, Dept. for the Aging, Courts, Correction, Police, Fire, Public Buildings, Real Property, Cultural Affairs, and Public Libraries. Numbers may not add due to rounding.				

Table 7 displays nine individual areas that are scheduled to receive an increase of more than \$500 million to their capital program over FYs 2022-31. In the FYs 2022-25 four-year capital plan, the greater portion of the expansion is encompassed in six areas. The remaining three areas including Housing Preservation and Development (HPD); Energy Efficiency and Citywide Equipment; and Department of Parks and Recreation (DPR) have a projected combined reduction of \$1.4 billion in FYs 2022-25; consequently, all of their capital commitment increases are scheduled in the latter six years of the ten-year program. The nine individual areas presented in the table account for over 70 percent of the growth in the FYs 2022-31 ten-year capital program.

¹⁵ The city itemizes its capital program by functional areas based on authorized levels. The authorized level of commitments exceed what the city expects to undertake to allow for potential delays, changes in project scope and other adjustments to projects, while targeted commitment amounts represent a funding schedule the city projects it can realistically accomplish.

The increases to capital projects for the Department of Education (DOE) and HPD reflect the city's ongoing commitment to these areas. Most of the increase to the DOE's capital program is planned in the four-year capital plan, while the growth in commitments for HPD is scheduled in the later six years of the ten-year program. The commitments for DOE are designated for rehabilitation projects to bring public school buildings and support facilities up to a state of good repair and new construction to accommodate the shortage of seating. The increase to HPD capital projects will support the city's ongoing housing initiatives to build and/ or preserve 300,000 housing units citywide to meet the goals of the city's housing plans. The additional funding will also support HPD's development of affordable housing by offering a range of low-cost financing options for new construction on privately- and publicly-owned land.

Although commitments for Energy Efficiency and Citywide Equipment, and DPR were decreased considerably in the four-year capital plan, both received sizeable increases in the latter six years of the ten-year program. The enlarged investment to citywide equipment will primarily support the purchase and replacement of data processing equipment and software for the Department of Information, Technology and Telecommunication as well as for other agencies citywide. The substantial expansion to the DPR includes funding for improvements to parks in all boroughs.

Sewers, as part of Department of Environmental Protection, received a significant increase in capital funding predominantly for professional services for sanitary and combined drainage plan preparation citywide and high level storm sewers, particularly for sewer systems in Queens. Environmental protection projects are financed by bonds sold by the NYW, which are backed by city water and sewer user fees and not tax revenues.

The additional capital commitments for the Department of Small Business Services primarily include funding for projects related to the acquisition, construction and reconstruction for citywide economic, commercial and industrial development initiatives as well as neighborhood redevelopment. The added capital funding for New York City Housing Authority (NYCHA) addresses the requirements established in the administrative agreement with the federal government to address the deterioration caused by long-term deferred repairs and maintenance to the city's public housing system serving low-income residents.¹⁶ Growth in commitments for Health + Hospitals includes funding for improvements to hospitals citywide as well as additional correctional health services. The increased commitments for Transit, in part, represent the city's responsibility to satisfying a funding agreement with the state.¹⁷ The allocated increase

¹⁶ The administrative agreement between the U.S. Attorney for the Southern District of New York, the city, and NYCHA established in January 2019 required the city to maintain funding commitments to NYCHA by providing a total of \$1 billion in capital funds over four fiscal years following the date of the agreement as well as an additional \$200 million annually for at least the following six fiscal years after the first four fiscal years to repair systemic long-deferred maintenance defects in housing developments under the oversight of a federal monitor.

¹⁷ The State 2021 Budget requires the city to contribute \$3 billion towards the MTA's capital program concurrent with the state's \$3 billion contribution.

will support various ongoing track improvements and rehabilitation, as well as other subway and bus projects.

III. Glossary of Acronyms

BARBs	Building Aid Revenue Bonds
DEP	Department of Environmental Protection
DOE	Department of Education
DPR	Department of Parks and Recreation
FCB	Financial Control Board
FEMA	Federal Emergency Management Agency
FTS Bonds	Future Tax Secured Bonds
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
G.O. Bonds	General Obligation Bonds
HPD	Department of Housing Preservation and Development
IPO	Initial Public Offering
NYCHA	New York City Housing Authority
NYCTFA	New York City Transitional Finance Authority
NYSE	New York Stock Exchange
NYW	NYC Municipal Water Finance Authority
OPEB	Other Postemployment Benefits
PS	Personal Service
RHBT	Retiree Health Benefits Trust
STAR	School Tax Relief Program

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